FOREIGN AGRICULTURE

Grape harvest in France

March 28, 1977

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Harvesting wine grapes in the Anjou region of France. A leading agricultural industry in France, wine production recently has been troubled by a number of problems, some of which are being tackled in programs implemented under France's Seventh Plan for 1976-80. See article opposite.

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France's Seventh Plan

Ambitious goals for agriculture portend increased export competition from France during the next 4 years, as the country gives especially strong attention to boosting farm exports to nations outside the European Community.

By HAROLD A. McNITT
Foreign Demand and Competition Division
Economic Research Service

THE FRENCH agricultural economy, already Europe's largest, will become a bigger, more aggressive exporter of farm products if goals of France's Seventh Development Plan are realized. This, in turn, means stepped up competition for U.S. agricultural exporters who already are up against tough contention from France in European Community (EC) and world markets.

Enacted into law July 21, 1976, the Seventh Plan sets the nation's economic goals for 1976-80, covering every facet of French farm policy and voicing the French position on key issues facing EC agriculture as well. Prominent among these goals are rapid agricultural expansion and vigorous export promotion keyed to prospects of a food and agricultural trade surplus of over $4 billion by 1980—four times that of 1975.

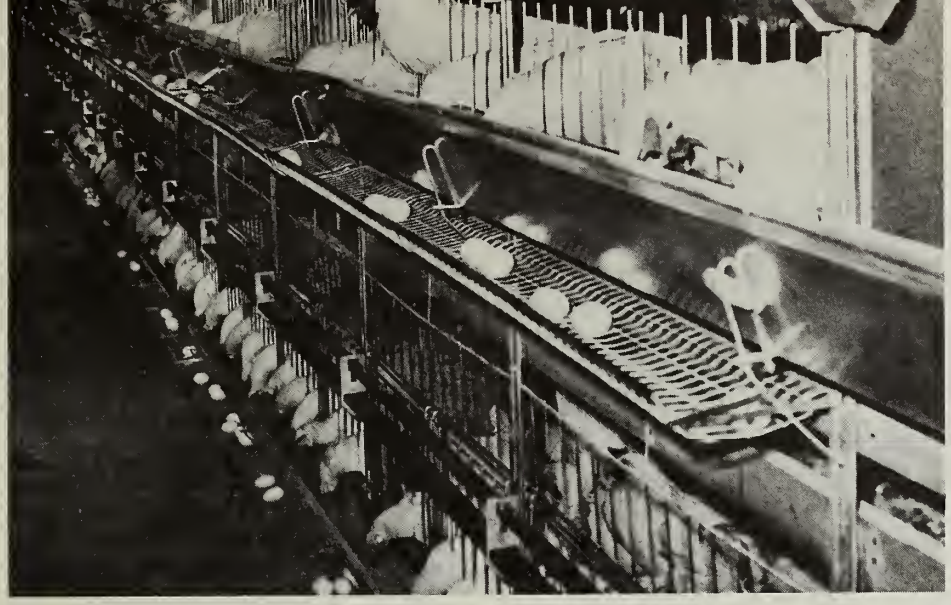
The plan is the latest in a series that began with the so-called Monnet Plan in 1946. These plans have been "indicative," seeking to guide and promote, rather than control, the nation's economic development. However, the French Government plays a major role through tax and budget measures, loans, research grants, and investments in specific projects.

Under the direction of a new Central Planning Council, the Plan was prepared by several Commissions appointed to examine current realities and future possibilities in agriculture, industry, transport and communications, research, energy, education, and other key sectors of the French economy. The Planning Council, established in 1974, is designed to integrate the planning procedure more closely with decisionmaking by the Executive Branch. Both the President and the Prime Minister sit on the Council.

The Plan comes at a time when France—like most other West European countries—is slowly emerging from its worst postwar recession with lingering problems of unemployment (over 4 percent), excessive price increases (about 10 percent in 1976), and mounting trade and payments deficits.

Against this difficult backdrop, French officials are calling for an annual average real GNP growth rate of 5.5-6 percent during 1976-80. This will require sustained high growth during the last 3 years of the Plan (1978-80) since the rate in 1976 was about 5 percent and growth in 1977 may not exceed 3 percent. If the planned 5.5-6 percent average is achieved, it should create over 1 million additional jobs by 1980.

The Plan also foresees a growing French trade surplus in agricultural commodities and industrial goods—needed to offset rising energy import costs—and projects a 4 percent annual increase in household consumption



Top to bottom: A laying hen operation in France, harvesting grain, and unloading and stocking cherries after harvest. Already Europe's top producer and exporter of farm products, France hopes to boost its agriculture even more during the next few years, which means greater competition for U.S. agricultural exporters from this No. 2 exporter of farm products.

expenditures during the Plan period.

On the inflation front, the Government's objective is to bring price increases down to a rate below 6 percent annually by 1980, if not sooner. France took a big step in that direction when Prime Minister Barre announced a strict package of anti-inflationary measures in September 1976.

As part of its package of national policies for every sector of the economy, the Plan continues support for the family farm as the keystone of French agriculture. Current programs to support the family farm include early retirement benefits for elderly farmers with earlier transfer of farms to the next generation; preferential loans and other incentives to young farmers; and emphasis on extension and training programs to increase farmers' knowledge and skills.

Also reaffirmed is the long-standing policy of achieving closer parity of farmers' incomes with those of industrial workers and other wage earners. Farm income over the past 15 years has increased at an annual average rate of 9.9 percent (current prices), or at about the same pace as nonfarm income. However, serious income disparities exist among farmers in different sections of the country, and the Government hopes to reduce such disparities by giving increased attention to mountainous and other less-productive regions.

A strong agriculture is deemed essential to meet these and other objectives—especially the goal of achieving equilibrium in the balance-of-payments account. France has a long way to go toward this end, however, since its trade deficit last year was up to around $4 billion from $1.2 billion 5 years ago in the wake of increased outlays for petroleum and other energy-related products, plus larger spending for farm imports as a result of two successive "off years" in agricultural production.

The Plan thus calls for continuation of the remarkable strides made in farm production during the last 16 years. Aside from problems in the past 2 years due to bad weather, French agricultural production has risen almost steadily since 1960, with gains averaging over 3 percent annually, while the active farm population has declined by about 4 percent annually, and the number of farms, by 2.5 percent.

These developments have been accompanied by a phenomenal growth in

farm exports, propelling France to second place after the United States in world agricultural exports. By 1975, these exports had reached a high of $8.4 billion, compared with $2.7 billion in 1970 and $900 million in 1960. And even in 1976, when French agriculture was hit by the drought of the century, exports were valued at about $8 billion. (In terms of the franc, which depreciated relative to the dollar, 1976 exports were actually up 17 percent from 1975's.)

THE EVOLUTION after 1962 of a single European Community market for agricultural commodities under a Common Agricultural Policy (CAP) provided the opportunities for rapid French export expansion within a huge protected market. Shipments to other EC countries increased in value by an annual average of 17.4 percent, with the only major exception to this trend occurring in 1975.

As if to underscore agriculture's importance, the Plan's first priority action program—one of 25 such programs—calls for Government expenditures of 3.4 billion francs (about $700 million) during 1976-80 to "adapt agricultural and food production to new market conditions." The big expansion of French farm exports to the other Common Market countries during the past few years has virtually saturated the market for several French commodities, reducing the potential for further export growth (two-thirds of French farm exports now go to other members of the Community). Furthermore, the prospective entry of several Mediterranean countries—starting with Greece—into the EC will probably bring increased competition for a number of products, including wines, fruits, and vegetables.

To maintain a healthy rate of export expansion, therefore, France must increasingly look to markets outside the Community—especially in selling basic commodities such as grains, livestock products, and sugar.

To adapt French farming to these fundamental market changes, the first priority action program calls for:

- Modernizing and expanding the food processing industries.
- Increasing productivity in the cattle sector.
- Expanding irrigation, storage, and transportation facilities, particularly for the benefit of the grain sector.
- Revitalizing the wine industry to assure better quality and quantity controls.
- Developing domestic sources of protein feed to reduce reliance on imports.

The country also will have to aggressively promote exports if it is to achieve its trade goals—a need that is fully recognized in the Plan's Ninth Priority Action Program.

This Program calls for Government expenditures of about $750 million during 1976-80 to expand exports of both agricultural and industrial goods and services. (A relatively small proportion of the total, however, will go toward direct promotion of farm goods.)

The aim is a global French trade surplus in food commodities of at least 20 billion francs (about $4 billion) in 1980, compared with a surplus of 4.3 billion francs (about $1 billion) in 1975. Measures to achieve this goal include a strengthening of French commercial and technical representation abroad (especially in newly developing markets), expansion of information and marketing services, encouragement of French investment in facilities to market commodities abroad, and major enlargement of French port facilities.

Detailed discussion of the Plan's goals and programs appears in the *Rapport de la Commission Agriculture et Alimentation* (Report of the Commission for Agriculture and Food). It provides the groundwork on which agricultural sections of the Plan are based. While not strictly part of the Plan as enacted by Parliament, the Commission Report will provide the guidelines for implementing it. Similar reports were prepared by Commissions representing all major economic and social sectors. They "flesh out" the Plan itself with concrete targets and recommended actions.

Particlarly pertinent, from the world trade viewpoint, are the analyses of future output and trade for all major French farm commodities,—analyses prepared with heavy input from several farmers' organizations. Among the major commodities from the standpoint of U.S. exports both to France and to third countries are grains, oilseeds, compound feeds, and livestock products.

Grains. French grain production has achieved spectacular growth in recent years. Volume output rose by 23 percent during the Sixth Plan (1971-75), mainly reflecting increased yields. The Agricultural Commission Report urges an equally big growth during 1976-80. It targets output at 49-50 million tons by 1980, compared with an average annual production of about 40 million during 1973-75 (because of severe drought in the summer of 1976, output was well below average). During the past three growing seasons, wheat has averaged 46 percent of all grain produced (by volume); barley, 25 percent; and corn, 21 percent.

To sustain the projected rise in production, French grain exports will have to rise to about 22 million tons, compared with a 1973-75 average of 14 million. Domestic consumption, on the other hand, is expected to level off at 27-28 million tons by 1980.

The report calls for a doubling of grain shipments to countries outside the European Community to a level of 9.5-12 million tons by 1980. Exports to other EC members also are set at 9.5-12 million tons by 1980, compared with the 1973-75 average of 9.5 million. These more subdued expectations for exports to the Community (now the largest customer) reflect the EC Commission's feeling that the market is becoming saturated.

To meet the ambitious production and export goals, the Report recommends expanding irrigation and drainage facilities (especially in the southwestern corn-growing areas), developing higher-yielding varieties, and enlarging storage and transport facilities.

THE REPORT also endorses measures on the EC level to establish grain support prices more fully aligned with the grains' different nutritive values, and calls for more effective protection against imports of hard wheat, rice, and feed grain substitutes (particularly manioc).

Oilseeds and other protein-rich materials. A key objective of the Seventh Plan is to reduce France's dependence on imports of protein-rich feed ingredients, the most important of which are soybeans and soybean cake and meal.

Pointing out that France now imports 85 percent of its protein feed requirements, the Commission Report advocates vigorous measures to boost domestic production from the 1975 level of 700,000 tons to 1.8 million by 1980. It suggests stockpiling about 250,000 tons of protein materials; increasing use of urea, a nitrogenous compound

from which ruminants can synthesize proteins; and developing so-called green protein sources—beans, peas, other legumes.

If achieved, these objectives could have significant long-term implications for U.S. trade. U.S. exports of soybeans to France during 1973-75 averaged 325,000 metric tons valued at $75 million annually, while U.S. shipments of cake and meal averaged 730,000 tons valued at $130 million per year. In value terms, these commodities together comprised almost half of total average annual U.S. farm exports to France during that period.

The development of home-grown protein sources at the rate advocated by the Report will be difficult, however, French efforts to grow soybeans, begun in 1974, have met with little success so far. Production of rapeseed, an alternative oilseed protein source, averaged 555,000 tons during 1974-76; but any major increase will be partly hampered by the difficulty of growing high-yielding varieties that are at the same time nutritionally acceptable (i.e., relatively free of erucic acid) and free of toxic substances in the feed. And while the Government offers subsidies for cultivation of leguminous feeds such as forage peas and horsebeans, many farmers find grain more profitable to grow. Consequently, it may take several years to increase France's leguminous protein production substantially.

Compound feeds. A major user of U.S. raw materials, especially soybeans, the French compound feed industry enjoyed rapid expansion early in this decade. Production increased by 10 percent annually in 1971-73, after which it slackened. Continued modest production increases are forecast for 1976-80, but these will not be over 2-3 percent annually.

The Report suggests that during 1976-80 investment in the compound feed industry will emphasize better storage and distribution facilities, rather than increased production capacity.

Several actions are proposed to strengthen the industry. They include, in addition to diversification of protein sources, research on food industry by-products that can be used in animal feed. The Report endorses EC negotiations to assure greater security of supply of agricultural raw materials through international agreements for various commodities.

Beef. France, the world's fifth major producer and second largest exporter of beef, will continue to upgrade its cattle industry during 1976-80. Production of beef in 1975 totaled 1.5 million tons (includes the beef equivalent of live animals exported), an unusually high level as production averaged 1.3 million tons annually during 1970-75. This uptrend continued in 1976 as output rose to 1.6 million tons, reflecting increased slaughtering because of the severe drought. The Report emphasizes that the level of output during these 2 years was exceptional.

Although stressing that its estimates for 1980 are contingent on many factors, the Report suggests that production by then may total only about 1.7 million tons, of which 350,000 would be exported (250,000 to other EC countries and the rest to third countries, particularly in the Mediterranean and Mideastern areas).

THE REPORT recommends several steps to sustain and increase output —improving the health of French livestock, including eradication of brucellosis by 1980; developing more productive breeds through genetic selection; improving productivity through lower feed costs and better means of financing; creating the facilities needed to develop more trade in live animals within the Community; modernizing and restructuring slaughter and warehouse operations in order to increase competitiveness on foreign markets; and encouraging French firms to invest in distribution, warehousing, and other facilities in markets outside the country.

Poultry and eggs. France is second only to Italy among European producers of poultry meat and second to West Germany in output of eggs. French production of broilers in 1976 totaled 535,000 tons, an increase of 45 percent over the 1976 level (most of this expansion, however, occurred before 1973). The Report calls for a 6-12 percent gain in production of poultry meat during 1976-80, depending on economic conditions. This growth should enable output to meet domestic consumption demand and also provide a regular surplus for export. The Report also calls for a modest 4-9 percent increase in egg production during the period.

Pork and other commodities. Domestic consumption of pork is projected to increase at an annual average of 3 percent during 1976-80. French production (1.4 million tons in 1976) is targeted to rise by 3.5-4 percent annually. While France will still run a trade deficit in pork, it will be considerably reduced from the 1970-74 average deficit of approximately 220,000 tons.

The Report sets targets and recommendations for several other major French farm commodities, including mutton, milk products, sugar, fruits and vegetables, potatoes, wine, and other beverages.

FRANCE CAPTURING MORE OF FARM MARKET

Aided by a ninefold increase in sales since 1960, France's agricultural exports today are surpassed only by those of the United States. And, at nearly $8 billion in calendar 1976, they have posed increasing competition for U.S. farm exports on a number of fronts, including:

- The EC barley and corn markets, to which France now ships about 5 million metric tons of these products a year, compared with about a half a million in 1960;
- EC and world wheat markets, together recipients of about 7 million tons of French wheat, compared with 1.3 million in 1960;
- World apple markets, where France has emerged from its insignificant export role of a decade ago to rank as the world's leading exporter, in 1975 shipping nearly 600,000 tons of apples to markets in the European Community, Scandinavia, Latin America, and Asia.

While such exports whittle away at traditional shares of the EC and other farm markets, France itself continues to offer a major outlet for several U.S. commodities, especially soybeans and soybean meal. U.S. farm exports to France totaled $459 million last year, up 13 percent from 1975 but below the record $492 million sold in 1974. Mainly because of drought-induced purchases of corn and potatoes, plus higher soybean and citrus prices, U.S. farm exports to France may reach $700 million this year.

Green Coffee Prices Could Ease by Year's End . . . If

By WILLIAM C. BOWSER
Foreign Commodity Analysis, Sugar and Tropical Products
Foreign Agricultural Service

COFFEE PRICES for consumers are expected to climb higher throughout 1977, but there is a possibility that green coffee prices may begin to drop by the end of the year, with wholesale and retail prices following suit a few months later, provided that—

- The 1977 harvest in Brazil, which traditionally supplies about one-third of the world's coffee exports, reaches 16-18 million bags (60 kg each),
- August 1977 passes without further frost damage to existing trees in Brazil,
- Brazil's 1978 crop outlook appears highly favorable, based on the flowering and bean set in December,
- No other production problems befall crops in other major coffee-producing areas, such as a significant reduction in yields due to coffee leaf rust disease in Central America, and
- There is a sizable dropoff in total world demand in 1977.

The last presumption is dependent on a large number of U.S. European, and other consumers deciding prices are "too high" and reacting by curtailing their coffee-drinking habits. Because the United States and most other major consuming countries are dependent on foreign sources of coffee, there is little that these importing countries can do directly to bring down coffee prices.

World coffee supplies are currently tighter than they have been since the 1950's (see box), and prices have moved to new record highs almost on a daily basis. This is true not only for green coffee, but also for coffee sold at wholesale and retail levels.

The outlook for increased world coffee production over the next few years and some recovery in world stocks will largely be tied to the success of Brazil's coffee recovery program following the July 1975 frost. That frost reduced the 1976 Brazilian harvest from a potential 28-30 million bags to only 9.5 million, one of the smallest coffee crops in the country's history.

Brazilian production is variously forecast at 13-18 million bags in 1977, around 20-22 million in 1978, and as high as 25-28 million in 1979. Brazil is also placing greater emphasis on coffee plantings in frost-free areas, such as the State of Minas Gerais. Nevertheless, world supply uncertainties will undoubtedly remain during this period, and coffee prices are likely to stay relatively high.

The 1976/77 world coffee production is pegged at 62.2 million bags in the fourth estimate by the U.S. Foreign Agricultural Service (FAS). This is 1 percent below the third estimate and is 16 percent below the 1975/76 outturn. Carryover stocks in the producing nations on October 1, 1976—the beginning of the 1976/77 coffee year—were probably less than one-half the estimated total coffee consumption for the year. More significant is the FAS forecast of the 1976/77 exportable production (that which is not consumed by the producing countries) of 45.3 million bags. This is about 18 percent under the 1975/76 level and approximately 10-12 million bags less than net world import demand.

Therefore, the already low stocks in the producing countries, along with those held by importers, will be drawn down during the current marketing year. Because exporting countries are likely to maximize returns while prices are at record levels, the total drawdown on producer-held stocks, especially Brazil's, could well be more than 10 million bags.

In the United States, green coffee prices in February 1977 reached a new record as the International Coffee Organization (ICO) composite price averaged $2.46 per pound, up from $2.06 in December 1976 and 143 percent higher than a year earlier. The wholesale price for a 1-pound can of roasted coffee averaged $2.63 in January 1977 while the average retail price lagged behind at $2.55, according to the U.S. Bureau of Labor Statistics. Corresponding wholesale and retail prices in January 1976 were $1.46 and $1.53, respectively. Because there is a 4-to-6 month lag in prices from the point of import until coffee reaches the retail outlet, consumer prices are expected to continue upward throughout the year.

Almost all coffee producing countries apply a tax on exports as a revenue measure. In many cases, much of this tax revenue is returned to the coffee sector in the form of production or marketing assistance programs. For example, Brazilian export tax revenues go into a coffee fund, which has expended over $1 billion in production recovery programs since August 1975.

In many countries, the export tax is tied to the price exporters received for coffee. In January 1976, Brazil's contribution quota, or export tax, on green coffee was $29 per bag (22 cents a pound). The tax increased as world coffee prices rose so that on December 31, 1976, it was $100 per bag. Subsequent increases to $120 per bag as of March 7, 1977 have reflected, in part, devaluations of the Brazilian cruzeiro.

In Colombia, the export tax is 18 percent of the sales price. In addition, there is a retention tax of about 46 percent that goes to the national coffee fund to finance public works and support minimum prices to growers. Export taxes in most coffee-producing countries have been subject to frequent upward adjustments as green coffee prices rise. Available information as of February 1, 1977, indicates that ex-

From left to right: Brazilian coffee seedlings are prepared for planting in the State of Parana. Leon Yallouz, economist of the Agricultural Attaché Office, examines a coffee tree, which has been "stumped" following the July 1975 frost in Brazil. Yallouz and U.S. Agricultural Officer Robert Wicks inspect coffee trees during a field survey.

port taxes in other representative coffee-producing countries are approximately as follows: Costa Rica, 18 percent of sales value, plus a specific tax of 4.5 cents per pound; Mexico, 38 percent of the "official" export price of $2.17 per pound; El Salvador, 30 percent of sales value in excess of 40 cents per pound; Ecuador, 27 percent of sales value; Cameroon, 40 percent; Zaire, 13.75 to 14.75 percent; and Kenya, about 3 percent of sales revenue paid to the Coffee Marketing Board.

With the current tight supply situation, a reduction or elimination of these export taxes would probably not result in a significant decline in consumer coffee prices.

Unlike most other crops, coffee has undergone lengthy periods of boom or bust, because of dramatic changes in world supplies, sharply volatile prices, and the special characteristics of the coffee crop. A tree crop, coffee seedlings require 3 to 5 years to produce commercial yields. Yearly changes in production—except for crop disasters like the 1975 frost—are largely determined by the intensity of crop management practices and the use or nonuse of fertilizers, fungicides, and other inputs.

Additionally, coffee is grown mainly in tropical regions of developing countries, is highly labor intensive, and can be stored for years. As well, a single country, Brazil, commands a dominant role in world production, so any changes in world supply often are related to the size of the Brazilian crop.

TODAY'S SITUATION SIMILAR TO EARLY 1950'S

The current coffee situation is a product of a chain of events that began at the end of World War II. In the 10 years following the war, the limited stocks in the producing countries were rapidly depleted as U.S. consumption rebounded from wartime lows and European demand grew in step with economic recovery. During 1950-55, carryover stocks of producers averaged barely 15 percent of annual world consumption.

Prices rose sharply under the influence of conditions similar to those prevailing today.

Sparked by new price incentives, coffee-producing areas were expanded in Brazil and elsewhere from about 1956 through the 1965/66 crop year (October-September) when production hit a postwar high. At the beginning of 1966/67, stocks were in excess of an entire year's roasting requirements for all countries, and prices were depressed in producing countries. Brazil held the bulk of these excess supplies. Because of the burdensome nature of these stocks, Brazil began to broaden its economic base, downgrading coffee in its total agricultural program.

From 1966/67 until now, world coffee stocks—especially Brazil's—have dropped sharply.

By 1975, much of Brazil's coffee was produced in the frost-prone States of Paraná and São Paulo. Unlike the July 1975 frost, previous ones limited the country's output for only about 1 year and were easily offset by drawing from the large stocks.

However, the world was ill prepared for Brazil's extremely low 1976 crop or even the longer term effects of the 1975 frost. Adverse crop conditions in other countries and drastic reductions in Angola's coffee output (down about two-thirds during the past 2 years due to the civil war that ended in 1976) were secondary to the Brazilian situation.

Although green coffee prices began to rise markedly in August 1975, the upward price movements have been most spectacular since March 1976—especially in the year's final quarter and so far in 1977, as importers compete vigorously for offerings from all sources.

Slight Recovery Seen in World Sheepmeat Trade

By GARY GROVES
Foreign Commodity Analysis—Dairy, Livestock, and Poultry
Foreign Agricultural Service

A border collie works a flock of Merino sheep i

ALTHOUGH world trade in sheepmeat has declined in recent years, indications point to a slight rebound in production and exports, particularly as producers receive better lamb and wool prices and as new sheepmeat customers in the Mideast—one of the fastest growing markets—increase their imports.

Total world exports of sheepmeat, which peaked at over 935,000 metric tons, carcass weight equivalent (cwe), in 1972, had been dropping steadily in the past few years and in 1974 were only 650,000 tons. However, trade recovered somewhat in 1975 to 785,000 tons and—based on present indications—rose slightly in 1976.

World sheepmeat trade continues to be concentrated among a few countries, with only two major exporters—Australia and New Zealand—and usually six to eight major importing countries. As the profitability of sheepmeat production declined—relative to other farm enterprises—during 1971-73, output and exports in Australia and New Zealand—together supplying 80-90 percent of total world sheepmeat exports—dropped significantly.

Sheepmeat production in Australia declined from 863,000 tons in 1972 to an estimated 600,000 tons in 1976, while exports dropped from 373,000 tons (cwe) to about 300,000 tons during the same period. The prolonged drought in Australia—largely a mutton producer—combined with low mutton prices will likely dampen Australia's export availabilities in the near future.

Sheepmeat production in New Zealand decreased from a high of 566,400 tons in 1972 to an estimated 475,000 tons in 1976, while shipments of sheepmeat were reduced from 470,000 tons (cwe) to roughly 410,000 tons during the same years. However, in the next few years, projected improvement in lamb and wool prices will likely lead to higher sheepmeat production and export availabilities in New Zealand—principally a lamb-producing country.

There have also been some substantial changes in several sheepmeat importing countries that have affected world trade. Takings by the world's largest importer of sheepmeat—the United Kingdom—declined by nearly 35 percent between 1972 (356,000 tons) and 1976 (about 231,000 tons).

High meat prices and a slowdown in economic growth, which decreased domestic meat consumption, were two of the primary causes of lowered imports, mainly of lamb from New Zealand. In addition, gradually higher duties on lamb imports as part of the United Kingdom's transition toward full membership in the European Community (EC) and a decline in the value of the pound sterling discouraged imports. Meanwhile, production of sheepmeat within the United Kingdom increased steadily from 220,000 tons (cwe) in 1972 to an average of roughly 250,000 tons during 1974-76, thus lowering import needs.

Although the United Kingdom is likely to remain an important outlet for sheepmeat exports, its role in the world market is diminishing. Should economic instability continue, sheepmeat consumption and imports will remain well below the levels of previous years. Furthermore, on July 1, 1977, the United Kingdom must apply the full Common Customs Tariff (20 percent for sheepmeat) of the EC, which will also lower import demand.

In France, on the other hand, imports of sheepmeat have risen over 40 percent to an estimated 44,000 tons (cwe) between 1971 and 1976. The majority of these sheepmeat imports have been supplied by the United Kingdom, Ireland, and the Netherlands.

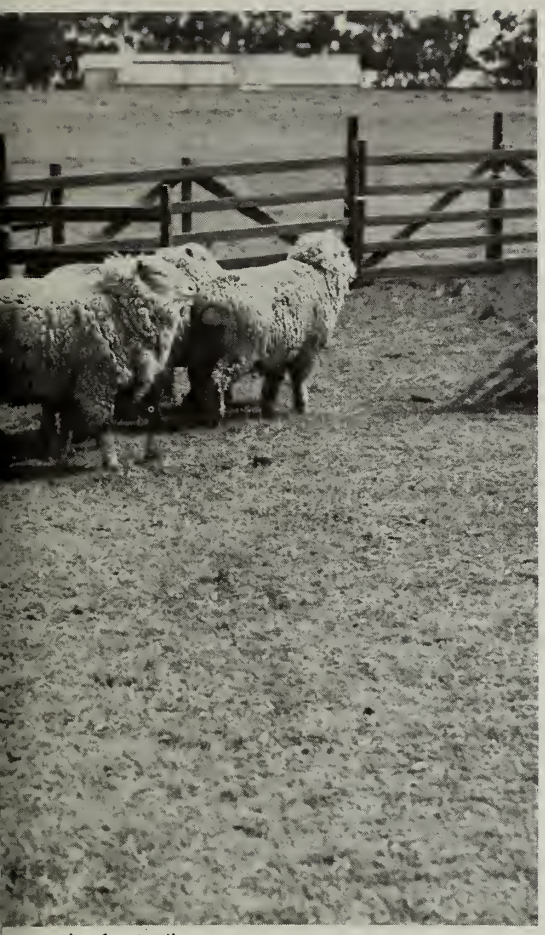
Unlike in many other countries, sheep producers in France have found consumer demand strong in recent years. Purchases of high-quality meats, including lamb, have increased as the result of expanding incomes.

Owing to relatively high prices and the high degree of protection and support provided to sheep farmers by the French Government, domestic production expanded to an estimated 140,000 tons in 1976. However, this same high degree of protection will limit the growth of imports into this market in the next few years.

Future sheepmeat imports by the United Kingdom and France could be affected by the proposed Common Agricultural Policy (CAP) for sheepmeat in the EC. However, at present, negotiations on the proposed interim policy have apparently reached a stalemate.

If implemented, the proposed system would provide for a gradual reduction in French trade barriers and the U.K. producer deficiency payments, thus opening the market for freer trade within the EC. However, Ireland has refused to accept an interim policy without a commitment for a full CAP on sheepmeat by the beginning of 1978.

Meanwhile, France will not agree to any large reduction in its import levies because of the possibility of market dilution by less expensive U.K. and Irish lamb. Although the implications of a CAP for sheepmeat are difficult to evaluate at this stage, the policy



a pen in Australia.

would likely encourage domestic sheepmeat production and self-sufficiency at the expense of imports from third countries.

In the United States, the continuing trend of declining sheep numbers and sheepmeat production during the 1970's is still evident. As production costs — particularly of labor — have increased, many farmers have been forced to switch to other farm enterprises. Production in the United States, currently at 164,000 tons, will probably continue to decline in the next few years, although not at the 1971-76 pace.

Despite lower U.S. output of sheepmeat, imports—mostly of lamb—have also declined relatively steadily during the 1970's, bottoming out at 12,200 tons (cwe) in 1975. Contributing to this trend is lower sheepmeat production in the main exporting countries of Australia and New Zealand, combined with lower per capita U.S. consumption of red meats, particularly sheepmeat. Imports in 1976 of 17,000 tons, although almost 40 percent above the reduced 1975 level, were still well below levels of previous years.

The biggest news in sheepmeat exporting countries is the Mideast, a growing export market for both live sheep and sheepmeat. With the increased per capita incomes of the oil-rich nations and influx of foreign personnel, demand for meat is expanding rapidly. World exports of sheepmeat and live sheep to the Mideast in 1975 totaled almost 100,000 tons (cwe), nearly three times the levels of 1971. Indications are that exports to this area during 1976 were almost 50 percent greater than those of 1975. Indeed, exports of sheepmeat to the Mideast should continue to grow rapidly and provide an important outlet for New Zealand and Australian export production.

Elsewhere in the world, State-controlled imports of sheepmeat—mostly of mutton—by the USSR have been very sporadic in the 1970's, ranging from an estimated high of 95,000 tons (cwe) in 1974 to a low of 8,000 tons in 1972. The USSR is by far the world's largest sheepmeat producer, with 1975 production approximating 1.045 million tons.

Japan, a negligible producer but a top purchaser of sheepmeat—primarily of mutton for use in processed meat products—has kept its imports at relatively steady levels throughout the 1970's, averaging between 155,000 and 185,000 tons (cwe), a trend likely to continue in the future. While beef and pork imports have been restricted by Government duties and/or quotas, mutton imports have been free of such restrictions.

CANADIAN GRAIN ACT ATTEMPTS TO STABILIZE FARMER INCOMES

THE CANADIAN GOVERNMENT has long been trying to establish a program to stabilize incomes farmers receive from Prairie grain sales—insulating producers from depressed grain prices and inflationary pressures. After years of discussion, the Western Grain Stabilization Act went into effect on April 1, 1976.

The Western Grain Stabilization Act set up a fund made of contributions from grain producers and the Government, to be used to maintain a net cash flow to producers from grain and oilseed sales in the Canadian Wheat Board Area—Manitoba, Saskatchewan, Alberta, and Peace River District of central British Columbia.

(Net cash flow is defined as the difference between total gross receipts from sales of all Prairie grains and oilseeds for a specific year and the total cash costs necessary to produce them.)

Under the terms of the Act, which applies to all producers of six major grains and oilseeds—wheat, barley, oats, rye, rapeseed, and flaxseed—payments are made to producers in proportion to their contributions to the fund whenever eligible cash flow falls below the average of the previous 5 years.

Under the voluntary plan, a producer is expected to contribute 2 percent of his annual gross grain cash receipts (up to $500 on a $25,000 maximum in proceeds) to a stabilization fund. Contributions to the fund are tax deductible, and the Canadian Government pays $2 to the fund for every $1 contributed by producers.

In calculating the producers' gross cash receipts, the following items are taken into account:

- All cash receipts for sales to the Canadian Wheat Board;
- All cash receipts for sales of wheat, oats, barley, rye, flaxseed, and rapeseed to authorized elevators, feed mills, and feedlots;
- All proceeds from crop insurance payments received by the producer and all sales of seed grain through commercial outlets.

Final payments to producers for sales to the Canadian Wheat Board are included as cash receipts for the first full calendar year following the crop year for which payment is made. (Note that this final payment is actually made in January of the next year, e.g. the final payment for the 1975 crop was made in January 1977.)

At the time the Western Grain Stabilization Act was being devised by economists, the $25,000 maximum gross sales limitations would have qualified 95 percent of total grain production. However, during the high grain price period while Parliament was considering the plan, the rate of possible coverage dropped to an estimated 70 percent. But the recent sharp decline in grain prices has brought the coverage figure back up to roughly 90 percent of grain

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JAPAN'S FARM ECONOMY SHOWS SOME IMPROVEMENT

JAPAN'S FARM ECONOMY improved slightly in 1976, but in real terms the rise was more apparent than actual. There was, moreover, some betterment of the gross national product, but the gain was smaller than in past years.

Most indicators point to continued economic growth in 1977, but economists expect the pace will be more deliberate than in the year just past.

While the gross agricultural product (GAP) rose from the equivalent of $30 billion in 1975 to $31 billion last year, in terms of 1970 prices the GAP stayed at the $19 billion mark of the previous year. In terms of 1970 dollars, the gross national product (GNP) rose from $309 billion in 1975 to $327 billion last year, while the rise in current prices was from $488 billion to $550 billion.

Export growth slowed slightly in 1976, and imports accelerated, causing Japan's trade surplus to drop in the final quarter of the year. Nevertheless, the country's overall trade balance remained favorable and its reserve holdings grew.

The Japanese trade surplus with the United States stood at $5.3 billion on a customs clearance basis. Imports from the United States—at $10.2 billion—lagged behind exports to the United States of $15.5 billion. Globally, exports totaled $63.3 billion (f.o.b.) versus imports of $55.8 billion.

Value of agricultural exports from the United States to Japan in 1976 (f.a.s. basis) climbed 16 percent to $3.56 billion, with increases registered in wheat, corn, soybeans, sorghum, canned fruit, poultry, pork, beef, tobacco, and tallow. Volume decreases were registered in some other commodities: Seeds, nonfat dry milk, and pulses, for example.

Cotton. Although relatively moderate, the economy's upward movement boosted raw cotton usage in 1976 by about 99,000 bales; total consumption went to 3.4 million bales.

The U.S. share of estimated total cotton imports of 3.1 million bales fell to 24.5 percent from 27 percent of the previous year's imports of 3.2 million bales.

Imports of U.S. cotton in 1977 should reach 800,000-1 million bales, provided U.S. prices continue to be competitive and the United States is regarded as a stable and dependable supplier.

Several cotton-using organizations are jointly petitioning the Government of India for an increase in the Indian export quota for Desi cotton, used in the manufacture of bedding and sanitary products, apparently because of the tight supply of similar quality cottons on the world market.

Dairy and Poultry. Japan's total dairy herd has been estimated by the Ministry of Agriculture and Forestry (MAF) in its February 1, 1976, livestock census at 1.81 million head (up 1.3 percent), including nearly 928,000 milking cows (up 2 percent). The 1977 total was expected to reach 1.86 million on February 1, 1977, with the number of milking cows rising to 945,000 head.

The 1976 census further indicated there were 147,100 dairy farms, a decline from 160,100 a year earlier. Thus, the average dairy herd grew from 11.2 head in 1975 to 12.3 in 1976.

Approximately 63 percent of 1976 milk production was consumed as fluid milk, about the same as a year earlier. However, a noticeable drop occurred in the production of reconstituted milk, which—at 68,415 tons—was 52.5 percent lower in the first 10 months of 1976 than the same period of 1975.

During January-November 1976, Japan imported nearly 13 percent more cheese (49,178 tons), 95.7 percent more nonfat dry milk (75,033 tons), and 9.6 times as much butter (18,653 tons) as in the same period a year earlier. The enlarged dry milk imports were from Oceania to meet expanded feed quotas in the second half of Japan's fiscal year.

Poultry population on February 1, 1976, was up, as layer numbers rose by 1.4 percent to 147.7 million and broilers 6 percent to 92.9 million. Again, the census reflected a drop in the number of farms as those with layers fell 24.3 percent to 384,100 and those with broilers fell 6.9 percent to 10,739. Because of its feed-intensive nature, broiler production is continuing its move toward an integrated structure, encompassing feed processing, feeding, and slaughtering. At present, there are 30 producers throughout Japan, each marketing more than 300,000 birds a month. They had a 40 percent share of the 482 million broilers marketed in 1976.

Looking for a substitute for high-priced pork, consumers have settled on poultry meat, and producers are pushing production of young chickens, as importers are buying more turkeys and broilers. Practically all of 1976's poultry meat imports were frozen, and totaled 37,000 tons of chickens (20,630 in 1975), 700 tons of turkeys (double the 1975 total), and 700 tons of other categories, including ducklings. Of this, about 60 percent of the chickens, 99 percent of the turkeys, but less than 1 percent of other poultry meat came from the United States.

Oilseeds and products. Despite high support prices and incentive payments to soybean producers, total Japanese oilseed area and production fell in 1976. Output was down to 109,500 tons from 126,000 tons in 1975, area by 5 percent to 83,000 hectares.

Sagging demand for soybean oil caused concern among soybean meal users that domestic oilseed crushings would be reduced and meal outturn would be inadequate to meet oilmeal needs. This apprehension caused soybean meal consumers to urge trading firms to import soybean and peanut meal to assure stable supplies. Importers purchased 200,000 tons of foreign soybean meal, much of it from the United States.

Percentage increases in estimated imports of several oilseeds in 1976 were quite sharp. Copra rose 11 percent to 100,000 tons, peanuts by 18 percent to 60,000 tons, castorbeans by 25 percent to 45,000 tons, and sunflowerseed by 50 percent to 3,000 tons. These increases were offset by sizable falloffs in imports of safflower (–85 percent to 3,000 tons) and palm kernels (–14.3 percent to 6,000 tons).

The increase in soybean imports was just 5 percent, but the total was 3.5 million tons, up from 3.3 million tons a year earlier. U.S. export data show the United States supplied 3.07 million tons in 1976.

Japan's total production of edible and inedible vegetable oil in 1976 was down 2.5 percent from the previous year's level to 1.2 million tons. Consumption of edible vegetable oil last year was up 4.5 percent to slightly over 1 million tons from that of 1975.

Imports of all vegetable oils are estimated at 240,000 tons in 1976, 33 percent greater than the previous year's. Imports of soybean oil fell to 12,000 tons in 1976 from 14,000 tons in 1975, while palm oil imports increased from 111,000 tons to 150,000 in 1976.

Citrus fruits. According to the most recent MAF survey, mikan orange production is estimated at slightly more than 3 million tons in 1976, down 16 percent from the record 3.7 million tons harvested in 1975. Area devoted to mikan oranges was also lower, continuing a downtrend that started in 1974, when the industry began to cut back on surplus output. Reportedly, most of the area taken out of mikan trees is being planted to other citrus crops, but plantings are expected to level off in the next 2-3 years.

By far Japan's leading supplier of fresh citrus, the United States shipped all but 1 ton of Japan's January-November lemon imports of 83,309 tons, all but 12 tons of the period's orange imports of 23,452 tons, and all but 11,885 tons of the period's grapefruit imports of 149,253 tons. The United States is also Japan's major supplier of raisins, sweet almonds, fresh grapes, dried prunes, and orange, grape, and lemon juice, as well as numerous other fresh fruits, including papayas. However, imports of fresh deciduous fruits from the United States are prohibited by plant quarantine regulations.

Grain and feed. Japan's rice area rose slightly in 1976, but unfavorable weather during much of the season caused output to fall 3 percent short of the Government's plan. Still the 11.8-million-ton crop, plus an unusually large stock of 1975 rice, will ensure adequate supplies during the 1976/77 rice year (November-October).

In an effort to stabilize output and boost rice consumption, the Government is sponsoring various programs. The 1977 budget includes funds to help farmers switch from rice to other crops. The Government also will continue to push its earlier rice promotion campaign, although the program may be faltering since per capita rice consumption is leveling off.

FALLING SHORT OF THE Government target—even with payment of special incentives—Japan's wheat output was down 8 percent from the previous year's level to 222,000 tons. New incentives are expected to boost the 1977 crop slightly—to about 230,000 tons—but planted area may remain at about the previous year's level.

Total consumption of wheat for food is climbing and reached more than 5.7 million tons in Japan's 1975/76 wheat year (July-June). Bread consumption is rising at the expense of noodles, use of which is leveling off.

Wheat imports in 1975/76 jumped by 9.6 percent to nearly 5.8 million tons, of which the United States provided 56 percent. Stocks were considerably higher at the end of June 1976, and import requirements for the 1976/77 wheat year are estimated to be only 5.7 million tons, with the United States supplying about 3.2 million.

Cold summer weather cut yields in most of Japan's barley raising areas, offsetting a 2.6 percent rise in area and resulting in a crop that—at 210,300 tons—was 5 percent lower than the 1975 crop of 221,000 tons. Corn for silage was also up in area, but down slightly in outturn.

Feedgrain imports last year are estimated at 14.3 million tons, 9.3 percent higher than a year earlier. Of the total, corn accounted for 8.4 million tons; sorghum, 4.2 million; and barley, 1.8 million, all totals being higher than in the previous year. Corn imports in 1975 were 8.4 percent less; sorghum, 10.7 percent; and barley, 11.5 percent.

With purchases tending to be made on the basis of price, most of the increased sorghum shipments were by Argentina and Australia. Argentina pushed its sales up by 28 percent to 1.1 million tons, and Australia, by 11 percent to 900,000 tons.

Mixed feed production in 1976 is estimated at 18.1 million tons, a rebound from the previous year's reduced level of 16.3 million tons. Cattle feed was up 27.3 percent; broiler feed, 15.9 percent; and hog feed, 13.2 percent.

Livestock. During 1976, Japanese livestock producers enjoyed profitable operations, as mixed feed prices were stable or lower, while product prices were generally strong. However, wholesale pork prices declined sharply after hitting a record high in August because of the 16-month-long duty waiver on pork, which brought a record inflow of imports. Also, more dairy steer calves have been retained for fattening and beef production is expected to rebound in 1977.

Hog inventories increased sharply during 1976, while beef and dairy cattle numbers increased more gradually. The rise in the dairy herd is attributable to more cows being held for milking and calving.

According to a survey by the Prime Minister's Office, apparent consumption of red meats—the most expensive food item in the Japanese diet—rose only 2.8 percent, contrasted with an average 4-5 percent rise projected by MAF in its longer term projection. Apparently the lack of consumption growth was because urban salary increases—averaging just 8 percent—were wiped out by the 9.3 percent inflation rise. Import restrictions also contributed to the consumption holddown.

Beef imports are estimated at 92,000 tons in 1976, more than twice the year-earlier level, and the U.S. share rose to 12 percent. Because of its high quality, much of the U.S. chilled beef imported is reportedly sold as Wagyu beef used in many Japanese recipes. More than 2,000 U.S. slaughter cattle also were imported during the first 11 months of the year.

Surveys of sow numbers and farrowing intentions indicate that pork production will continue to rise in 1977, unless halted by a further decline in wholesale prices and/or a rise in feed costs. The piglet crop in August 1975-July 1976—at 15.7 million head—was 2.8 percent higher than in the previous period.

The Prime Minister's Office indicated only a 1.9 percent gain in pork purchases per household occurred in the first 10 months of 1976, in contrast to the sharp 14.8 percent rise in chicken consumption.

Along with the hesitation in consumption, pork imports rose sharply to 147,000 tons (of which 54,000 tons came from the United States in the January-November 1976 period), and these, plus the increase in domestic production, caused prices to fall and stocks to rise.

In the first 11 months of 1976, Japan imported 219,259 tons of tallow, with the U.S. share at 43.6 percent of the total. This U.S. import share, as well as the total, were significantly above 1975 levels, reflecting a strong recovery in demand by the soap and detergent industries.

Sugar. Japan's sugar consumption leveled off at about 2.7

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million tons (refined) in 1975/76, and is expected to be the same during 1976/77. Domestic production of beet and cane sugar (refined basis) amounted to about 440,000 tons, and import requirements for 1976/77 are estimated at 2.2 million tons.

Reportedly, Japanese sugar companies have concluded long-term import contracts for 1.9-2.25 million tons of raw sugar with Australia, Cuba, South Africa, Thailand, Brazil, and Taiwan.

Under the Australian agreement, Japan is obligated to import 600,000 tons of sugar yearly from that country until June 1980, at a contract price about double the current average import price. Japan sought a price reduction, but Australia was unwilling. In the face of this resistance, Japan passed a Sugar Price Stabilization Act requiring 24 of the country's largest sugar companies to form a cartel for the 3-month period beginning December 1, 1976.

Under the cartel's terms, sales of refined sugar (with some exceptions) are limited to 560,000 tons during the 3-month period. The cartel members hope the arrangement will be extended until later in the year.

Tobacco. The Japan Tobacco Corporation (JTC) estimates domestic leaf production as of September 30, 1976, to be 173,470 tons, 4.7 percent above 1975's outturn. Estimated at 50,863 tons for native, sun-cured leaf, 23,788 tons for burley, and 98,819 tons for flue-cured leaf, these figures may have to be reduced as damage done by October typhoons is assessed.

Domestic cigarette sales for 1976 were 275.6 billion pieces, a drop of 9.5 percent from 304.5 billion in 1975. Sales in December 1976 were 30.8 billion pieces, in sharp contrast to the 35.4 billion sold in December 1975, before a sharp increase in cigarette prices became effective.

Leaf tobacco imports for Japan's fiscal 1976 are now estimated at 100,000 tons, an increase of 4 percent from the previous year's level. According to JTC officials, the company's policy is to decrease imports of leaf tobacco by the same percentage at which production rises.

Total estimated leaf imports for Japan's fiscal 1977 are about 90,000 tons, with the United States maintaining its recent quantitative share.

—Based on report from
Office of U.S. Agricultural Attaché
Tokyo

Canadian Grain Act

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and oilseed production.

The calculation of payment to individual producers provides for each producer to share in the payment according to the ratio of his contributions in the current 3-year period (the current year plus the previous 2) to the total contributions of all other contributing producers.

As mentioned earlier, participation in the stabilization fund is voluntary; a producer not wishing to join may choose to remain out of the plan for the initial 3-year period. Should a producer change his mind and enter the plan at any time after having opted out, he may do so as a conditional participant for 3 years—an option that may be exercised only once.

In the event of a payout under the program, conditional participants are subject to a 10-percent penalty. New producers who begin farming after the start of the program will have the opportunity to join it for a 3-year period from the year farming operation starts.

The Western Grain Stabilization Act has had its share of criticism. Some detractors argue that certain farm costs such as interest charges, depreciation on farm machinery, equipment, and buildings are excluded from consideration in determining net cash flow.

Another is that payment made to farmers is a blanket one for the entire Wheat Board area. The plan does not take into account the fact that good crops in some areas may boost the average return so that no payment is made even when a fairly substantial area may have short crops.

This situation also applies to the imbalance resulting from a good wheat crop, but shortfalls in a coarse grain or oilseed crop. As considerably more wheat is grown than other crops, this could well mean no payment to those who concentrate on crops other than wheat.

The Canada Grain Council has announced that beginning February 1, 1977, the Canadian bulk grain handling industry is committed to begin conducting the purchasing, handling, and selling of Canadian bulk grains in the metric units of measurement.

The most serious criticism of the stabilization fund comes from nonfarm critics who fault the plan's possible cost to the Federal Treasury in the face of falling grain prices and increasing cash costs.

—David W. Riggs
Assistant U.S. Agricultural Attaché,
Ottawa

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